

US Dollar Trades at 3-1/2 Months Peak against JPY

The US dollar hit its highest level against JPY overnight Wednesday 30th December in more than three months due to speculation the Federal Reserve is moving closer to withdrawing stimulus measures as the US economy recovers, and also amidst concerns about Japan's stretched financial position.

Improved US data this month has prompted many analysts to re-evaluate their view on the timing of the Federal Reserve's first rate hike, which has lifted the dollar from a 14-year low against the yen. An industry association report on Wednesday showed that business activity in the US Midwest expanded far more than expected in the month of December, hitting an almost four-year high as employment posted the biggest monthly gain since September 2008.

Over the past year, good economic reports have generally pressured the US dollar as investors sought higher-yielding assets overseas. But that correlation has broken down in December, with the dollar strengthening against major currencies after stronger-than-forecast US jobs and retail sales data.

"Positive US data used to be negative for the dollar," said Boris Schlossberg, director of currency research at GFT Forex in New York. "Now that's reversed, and the dollar will perform well if the economic data continues to surprise to the upside."

"If, as we expect, we are back to normalcy, when strong data helps your currency, that opens up room for a further correlation in favour of the US dollar in the next month or so," said CIBC in a research note.

Concerns about Japan's fiscal health also weighed on the yen after rating agency Standard & Poor's said Japan's AA credit rating could be in danger if policy initiatives fail to stabilize and reduce the country's debt burden. The world's second-largest economy could see its debt rise to near 200 percent of its GDP.

